

Agenda Report

TO: CITY COUNCIL **DATE:** June 22, 2009
THROUGH: FINANCE COMMITTEE
FROM: CITY MANAGER
SUBJECT: AUTHORIZATION TO AMEND AND EXTEND CONTRACT NUMBER 18820 WITH CORVEL CORPORATION FOR ONE OF THE TWO OPTIONAL ONE-YEAR EXTENSION PERIODS

RECOMMENDATION:

It is recommended that the City Council:

- 1) Authorize an extension of contract number 18820 with Corvel Corporation, formally Hazelrigg Risk Management Services, for administration of the workers' compensation claims for the City's public safety departments (Police and Fire) and the processing of Bill Review for the safety and non-safety claims for a period of one year not to exceed \$760,728;
- 2) Authorize the City Manager to extend the contract for up to one additional year.
- 3) Grant the proposed extension an exemption from the competitive selection process of the Competitive Bidding and Purchasing Ordinance, Pasadena Municipal Code Chapter 4.08, pursuant to section 4.08.049(B) contracts for which the City's best interests are served.

BACKGROUND:

On April 28, 2008, the City Council authorized a one-year contract for the administration of the workers' compensation claims, with two optional one-year extension periods. This contract, to include administration of the claims program, also approved the use of Corvel's Bill Review Service for the processing of medical bills associated with each individual claim file. The contract commenced on April 11,

2008 and expired on April 11, 2009. Upon review of the initial request for contract extension and bill review, it was discovered that the prior Agenda Report dated 4/28/08 required clarification.

The administration of the City's Police and Fire claims is a separate cost from the bill review processing fees. The administration fee represents the fixed cost of \$367,942 in the contract. Corvel's cost to administer claims includes fees for Corvel staff salaries, staff benefits, monthly office overhead and monthly business profit. Per contract #18820-3, Corvel offered the City a 10% reduction of its administrative fees for the first year and a 2% increase of administrative fees for each optional year. This agreement was made with the intent that Corvel would assume processing of the Medical Bill Review portion of the claims process. In fiscal year 2009, administrative fees were reduced to \$353,655, a savings of \$39,295 from fiscal year 2008, where fees were \$392,950. Corvel's customary increase is 4% - 5% per year. Because the City has agreed to allow Corvel to process bill review, Corvel reduced their fees for fiscal year 2009 by 10% to \$353,655. Each optional year will be billed a fee increase of 2% thereafter, \$360,728 for fiscal year 2010 and \$367,942 for fiscal year 2011. This results in a cost savings of \$191,373 for the City, which would not have been saved had the city remained with its prior bill review vendor.

New Rates	Old Rates	Savings
FY09 \$353,655	\$406,668	\$53,013
FY10 \$360,728	\$425,015	\$64,287
FY11 \$367,942	\$442,015	\$74,073
Total		\$191,373

Bill Review is a separate payment issued on each individual claim file based on the number of times an injured employee is seen by a physician. Corvel's Bill Review Department receives bills from the City's workers' compensation department and directly from physicians associated with the safety claim files. Corvel's Bill Review staff reviews the bills for excessive prices by the physicians, and reduces the bills per the California Fee Schedule. Corvel averages a monthly bill review reduction of 70%, which is higher than the City's prior bill review company, which averaged 54% cost savings per month. Since taking over of the program in October 2008, Corvel has maintained a cost savings of no less than 70% each month. Bill review fees vary each month depending on the number of medical bills received from the physicians. Based on the average cost of bills paid over the past three years, it is estimated that bill review fees will not exceed \$400,000 for fiscal year 2010.

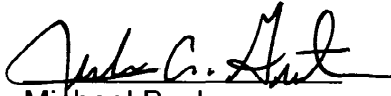
The City of Pasadena's past practice was to directly pay bill review fees as part of the regular medical cost directly from the workers' compensation liability fund. Staff proposes to increase Corvel's contract and incorporate into the contract the estimated annual amount of bill review fee in order to disclose the full amount of Corvel's compensation in providing workers' compensation services to the City. Staff is recommending the City Council exercise the first one-year optional contract

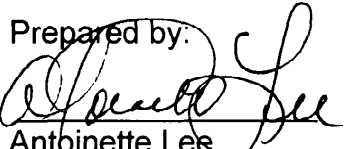
period with Corvel. The fixed cost portion of the contract, which represents the administration of the Police and Fire program in the amount of \$360,728 along with the Bill Review fee, which represents the variable portion of the contract in an estimated amount of \$400,000, will not exceed \$760,728 in fiscal year 2010.

FISCAL IMPACT:

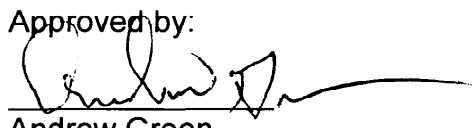
Appropriate funding for the proposed contract is available in the proposed 2010 operating budget for the fixed cost portion of the contract, which represents the administration fee in the amount of \$360,728. The variable portion of the contract, which represents the Bill Review service, will be paid out of the workers' compensation liability fund which costs are recovered annually through the budgeted burden rates to the City departments.

Respectfully submitted,


for Michael Beck
City Manager

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